

# THE IMPACT OF THE CONSUMER DUTY REGULATIONS – UK – 2023

The Consumer Duty requires firms to put customers' needs first, presenting an opportunity to increase trust through a more consistent consumer-centric approach.



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# The Impact Of The Consumer Duty Regulations – UK – 2023

## This report looks at the following areas:

- How much people trust or distrust providers of financial products to act in consumers' best interests.
- Consumers' perceptions of rip-off charges and fees.
- Consumers' confidence in their understanding of certain financial terms and interest in methods to improve their knowledge.
- Methods to contact financial services providers and satisfaction levels with the support received.
- Consumer behaviour towards certain aspects of the Consumer Duty.
- Competitive strategies and launch activity in light of the Consumer Duty.



The Consumer Duty requires firms to put customers' needs first, presenting an opportunity to increase trust through a more consistent consumer-centric approach.

## Overview

### Support consumers during the cost of living crisis

Delivering good outcomes, including for those in vulnerable circumstances, is a key area of the Consumer Duty, which was introduced in the midst of the cost of living crisis. This highlights the importance of supporting financially vulnerable consumers and offering targeted support to create a more inclusive financial landscape.

### Combat perceptions of predatory practices

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Perceptions of rip-off charges pose a significant challenge for providers who have to ensure they provide fair value. These negative perceptions, especially regarding fees imposed by certain sectors, can erode trust. Addressing this issue through transparent pricing is essential to uphold consumer trust and regulatory compliance.

### **The Consumer Duty can help increase trust**

While different financial products enjoy varying levels of trust, the Consumer Duty is an opportunity for firms to boost trust. By increasing pricing transparency, helping consumers improve financial knowledge, providing personalised support and consumer-centric products, providers can strengthen connections, thus enhancing trust.

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## Report Content



### EXECUTIVE SUMMARY

#### Opportunities in light of the Consumer Duty

- Consumer Duty provides opportunities to increase trust in financial services
- Help consumers understand products and services
- Prioritise seamless consumer journeys

#### Market dynamics and outlook

- Inflation is still the key factor affecting consumers' finances
- The vast majority of adults own a financial product
  - Graph 1: financial products ownership, 2023
- FCA's Consumer Duty comes into effect
- The Consumer Duty focuses on four key outcomes

#### What consumers want and why

- Providers of current accounts and savings accounts enjoy the highest levels of trust
- Almost half of adults think specialist loan and credit card providers are the most likely to impose rip-off charges or fees on customers
- Consumer exhibit varying degrees of confidence in their understanding of financial terminology
  - Graph 2: understanding of financial terms, 2023
- Almost half of adults want terms and conditions written in plain English
- Digital channels are the most used methods to contact financial providers
  - Graph 3: methods of contacting a financial services provider, 2023
- More than half of adults think financial services providers make it difficult for people to cancel products

#### Innovation and marketing

- Financial services providers are responding to Consumer Duty
- interactive investor launches Pension Essentials to bring better value to consumers
- Financial services providers focus on improving financial education
- Financial services providers have to be mindful of their advertising and marketing strategies
- Nationwide's rebranding campaign emphasises its consumer-centric approach

### MARKET DYNAMICS

#### Macro-economic factors

- The UK avoids recession, but output has stagnated since the cost of living crisis began
  - Graph 4: GDP, 2021-2023

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- Inflation is still the key factor affecting consumers' finances
  - Graph 5: CPI inflation rate, 2021-23
- Interest rates will rise in importance over the remainder of 2023 and into 2024
- Consumer sentiment: the recovery has begun...
  - Graph 6: the financial wellbeing index, 2016-23
- ...but most people are still feeling the effects of higher prices
  - Graph 7: "Have you been affected by any of these issues over the last two months? Please select all that apply.", 2023
- The vast majority of adults own a financial product
  - Graph 8: financial products ownership, 2023

## Regulatory and legislative changes

- FCA's Consumer Duty comes into effect
- The Consumer Duty has three key elements...
- ...including four key outcomes
- Types of information firms could use to monitor consumer outcomes

## WHAT CONSUMERS WANT AND WHY

### Trust in providers of financial products

- Providers of current accounts and savings accounts enjoy the highest levels of trust
  - Graph 9: trust in financial services providers to act in customers' best interests, by product, 2023
- Adults with precarious finances are more inclined to distrust financial services providers
  - Graph 10: distrust in financial services providers to act in customers' best interests, by financial situation, 2023
- 37% of those struggling or in trouble financially distrust credit card providers to act in consumers' best interest
- The majority of mortgage owners trust providers to act in their best interest...
  - Graph 11: trust in mortgage providers to act in customers' best interests, by housing situation, 2023
- ...but the sentiment is not widespread
- Trust in life insurance providers declines among older people
  - Graph 12: trust in life insurance providers to act in customers' best interests, by generation, 2023
- Providers of retirement income products have lower levels of trust...
- ...and women are less likely than men to trust them
  - Graph 13: trust in providers of retirement income products to act in customers' best interests, by age and gender, 2023

### Perceptions of rip-off charges or fees

- Almost half of adults think specialist loan and credit card providers are the most likely to impose rip-off charges or fees on customers
  - Graph 14: perceptions of rip-off charges or fees, 2023
- Older adults are more inclined to think financial advisers overcharge consumers
- Younger generations have more faith in investment companies

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- Graph 15: perceptions of rip-off charges or fees – investment company, by generation, 2023

## Understanding of financial terms

- Consumers exhibit varying degrees of confidence in their understanding of financial terminology
  - Graph 16: confidence in understanding of financial terms, 2023
- Adults with precarious finances are less confident in their understanding of financial terms
  - Graph 17: consumers who are not very or not at all confident in their understanding of the financial terms, by financial situation, 2023
- Enhance understanding of hard credit checks
  - Graph 18: confidence in understanding of 'hard credit check', by financial situation, 2023
- More than a third of current account holders lack confidence in their understanding of 'FSCS protected'
  - Graph 19: confidence in understanding of 'FSCS protected', by ownership of selected financial products, 2023
- Help younger generations improve understanding of financial terms
  - Graph 20: confidence in understanding of 'Representative APR', by generation, 2023

## Methods to improve understanding of financial products and services

- Almost half of adults want terms and conditions written in plain English
  - Graph 21: interest in methods to improve understanding of financial products and services, 2023
- Simplify T&Cs in general insurance
- Help younger generations improve understanding through more dynamic and relatable dialogue
  - Graph 22: interest in podcasts and chat bot services to improve understanding of financial products and services, by generation, 2023
- Use a multifaceted approach to help consumers improve their understanding of financial products and services

## Customer service support

- Digital channels are the most used methods to contact financial providers
  - Graph 23: methods of contacting a financial services provider, 2023
- Younger generations show a greater affinity for digital channels
  - Graph 24: selected methods of contacting a financial services provider, by generation, 2023
- Diverse customer support is still essential
  - Graph 25: selected methods of contacting a financial services provider, by product ownership, 2023
- High satisfaction with financial services providers' customer support
  - Graph 26: satisfaction with the support received from the financial services provider, 2023
- Regardless of their financial product, consumers are generally satisfied with the support received
  - Graph 27: satisfaction with the support received from the financial services provider, by product ownership, 2023
- Lower satisfaction among less well-off consumers highlights the need for targeted support
  - Graph 28: satisfaction with the support received from the financial services provider, by financial situation, 2023

## Behaviours towards Consumer Duty regulations

- Almost two-thirds of adults think banks and building societies design products that meet their customers' needs



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- Graph 29: behaviours towards Consumer Duty regulation, 2023
- Younger generations find it harder to cancel financial products
  - Graph 30: agreement with the statement 'I think that financial services providers make it difficult for people to cancel products', by generation, 2023
- Trust in financial advisers to recommend the most suitable products and services declines with age...
  - Graph 31: trust in financial advisers to recommend the most suitable products and services, by age groups, 2023
- ...while perceptions of rip-off charges compound the advice gap
- Almost a third of adults have seen improvements in customer service

## INNOVATION AND MARKETING TRENDS

### Competitive strategies and launch activity

- Financial services providers are responding to Consumer Duty
- Savings providers improve interest rates to offer fair value to their consumers
- Investment platforms aim to offer better value for money
- St James's Place unveils a revised charging structure to enhance value for consumers
- interactive investor launches Pension Essentials to bring better value to consumers
- Halifax enhances its vulnerable customer advice service
- Zurich unveils a modular critical illness proposition for bespoke cover
- LV= launches new 'Lifestyle' range of equity release products
- Financial services providers support consumers during the cost of living crisis...
- ...and focus on improving financial education
- PensionBee aims to enhance consumer understanding &nbsp;with 'Pension Academy'
- Investment providers want to help consumers invest with confidence
- AJ Bell advocates for simplified ISA
- Vanquis Bank aims to improve consumer outcomes

### Advertising and Marketing Activity

- Financial services providers have to be mindful of their advertising and marketing strategies
- Nationwide's rebranding campaign emphasises its consumer-centric approach...
- ...reinforcing its commitment to branches and 'a good way to bank' in its TV ad
- Aviva aims to help consumers solve financial puzzles
- Barclays pivots LifeSkills programme to support underserved communities
- AJ Bell unveils 'Feel good, investing' campaign
- UK Finance encourages mortgage customers to 'Reach Out'
- The FSCS aims to help people make better-informed decisions

## APPENDIX

- Report scope and copyright
- Abbreviations and Terms
- Consumer Research Methodology



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